UNITED
NATIONS

A

General Assembly

Distr.
GENERAL

A/49/277
25 July 1994

ORIGINAL: ENGLISH

Forty-ninth session
Item 91 (a) of the provisional agenda*

SUSTAINABLE DEVELOPMENT AND INTERNATIONAL ECONOMIC COOPERATION: TRADE AND DEVELOPMENT

Transit transport systems of the newly independent and developing land-locked States in Central Asia and their transit developing neighbours: current situation and proposals for future action

Report of the Secretary-General

* A/49/150.

94-30209 (E) 240894 25/08/94

/...

CONTENTS

		Paragraphs	Page
I.	INTRODUCTION	1 - 2	3
II.	OVERVIEW OF THE ECONOMIC ENVIRONMENT AND POTENTIALS OF THE CENTRAL ASIAN LAND-LOCKED STATES	3 - 8	3
III.	RECENT POLITICAL AND ECONOMIC DEVELOPMENTS	9 - 11	5
IV.	NEW PATTERNS IN INTER-REPUBLIC AND FOREIGN TRADE	12 - 17	6
V.	TRANSIT TRANSPORT SYSTEMS	18 - 41	9
	A. Existing transit transport corridors	18 - 28	9
	B. The search for alternative transit routes and other options	29 - 41	12
	1. Transcontinental east-west railway corridor	31 - 33	12
	2. The Iranian corridor	34	13
	3. The Pakistan corridor	35	14
	4. The Afghan corridor	36	14
	5. Other optional corridors	37 - 41	15
VI.	PROPOSALS FOR FUTURE ACTION	42 - 59	16
	A. Overall thrust of the proposed follow-up action	42 - 45	16
	B. Specific recommendations	46 - 59	17
	1. Comparative analysis of the viability of existing and potential transit corridors	46 - 47	17
	2. Assistance in the streamlining of the pattern of payments for transit services	48	18
	3. Improvement of the physical transit infrastructure facilities	49 - 53	18
	4. Transit facilitation agreements and arrangements	54 - 59	20
Annex.	Map of the Central Asian Republics		22

I. INTRODUCTION

1. In its resolution 48/170 of 21 December 1993, the General Assembly invited the Secretary-General of the United Nations Conference on Trade and Development (UNCTAD), in cooperation with the United Nations Development Programme (UNDP), to evaluate the transit system of the newly independent and developing land-locked States in Central Asia and their transit developing country neighbours and to elaborate a programme for improving their transit facilities, and to report thereon to the General Assembly at its forty-ninth session. The present report is the response to that request. The limited time and resources available precluded a comprehensive analysis and hence the report represents a first approximation only towards a fuller elaboration of more concrete programmes of action for dealing with the issues.

2. In preparing the report, the UNCTAD secretariat was able to arrange brief visits to three of the newly independent developing land-locked States of Central Asia (Kazakhstan, Kyrgyzstan and Uzbekistan), and to two transit developing country neighbours (Pakistan and Turkey), in order to consult first-hand with government officials and others on the issues involved, and to obtain relevant information. The Russian Federation, still the main transit country for the land-locked States of Central Asia, was also visited.

II. OVERVIEW OF THE ECONOMIC ENVIRONMENT AND POTENTIALS OF THE CENTRAL ASIAN LAND-LOCKED STATES

3. The Central Asian republics of Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan together occupy an area of some 4 million square kilometres (larger than all of western Europe), and have a total population of just under 50 million. In terms of surface area, Kazakhstan is by far the largest of these republics, with an area of over 2.7 million km^2, more than two thirds of the total. Tajikistan is the smallest, with a surface area of some 143,000 km^2. Uzbekistan is the most populous, with just under 20 million inhabitants, compared with 16.5 million in Kazakhstan, and Turkmenistan is the smallest in terms of population with 3.5 million inhabitants. These republics, which together occupy a geographically contiguous area in Central Asia, are bounded on the north by the Russian Federation, on the east by China, on the south by Afghanistan and the Islamic Republic of Iran, and on the west by the Caspian Sea, an inland body of water cut off from the high seas and whose coast is shared by five States, namely, the Islamic Republic of Iran and four members of the former Soviet Union. Kazakhstan, which lies to the north, shares a long border with the Russian Federation (extending over some 3,000 kilometres) and a shorter border with China, while Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan share borders with their southern neighbours or with China.

4. With its vast territory, Kazakhstan is well endowed with natural resources. About 10 per cent of its territory is highlands, the rest lowlands, plains, plateaus and hills. The south-west, north and central parts of the republic are mostly plains, and in the south-east there are mountains with peaks rising 5,000 to 6,000 metres above sea level. Kazakhstan contains about one fifth of the combined arable land of the former Soviet Union, and is thus a major producer

and exporter of agricultural products, including wheat, wool and meat. Agriculture accounted for about 37 per cent of output in 1991. Kazakhstan is also rich in minerals, accounting for about 50 per cent of the aluminium, lead and zinc reserves of the former Soviet Union, about 30 per cent of chrome, copper, tungsten and phosphate, over 20 per cent of manganese and molybdenum, and it also has important gold reserves. There is substantial mining of non-ferrous metals (copper, zinc, lead and gold) and of iron ore. Kazakhstan is also relatively well endowed with energy resources, acccunting for 19 per cent of coal production and 7 per cent of oil production of the former Soviet Union. The country also has a well-developed industrial base geared mainly towards metallurgy, heavy machinery and machine tools, petrochemicals, agro-processing and textiles.

5. Kyrgyzstan, the next to the smallest of the Central Asian republics, consists mostly of hilly and mountainous terrain, about 90 per cent of its territory lying 1,000 metres or more above sea level, with many small rivers and rapids draining from the mountains. Cnly about 7 per cent of the territory is arable. The economy is primarily agricultural, including pasture-based livestock, and produces cotton, wool, leather, silk, hemp, fodder, vegetables, fruit and grain. In 1990-1991, agriculture accounted for about a third of employment, and for a somewhat larger share of output. The industrial sector accounted for about a third of output, the major industries being metallurgy, agricultural and other machinery, food processing (including sugar refining), electronics and textiles. Kyrgyzstan has negligible deposits of gas and oil, but significant deposits of coal as well as other minerals such as gold, mercury, antinomy and uranium. The mountainous terrain and river resources enable Kyrgyzstan to generate substantial hydroelectricity as a major export item.

6. Uzbekistan shares a short common border with Afghanistan in the south and is otherwise surrounded by other Central Asian sister republics. Almost three fifths of the land area consists of desert landscapes and steppe, largely semi-arid terrain, with the rest comprising fertile valleys around two major rivers at the foothills of high mountain ranges. Uzbekistan is endowed with substantial natural resources, including large reserves of petroleum, natural gas and coal, and with considerable potential for hydroelectric power. It was a leading centre of the natural gas industry in the former Soviet Union. A pipeline stretches from Bukhara (in south-western Uzbekistan) to the Urals for the export of natural gas, and a high proportion of local industry is based on energy from gas. Recent oil discoveries could make Uzbekistan self-sufficient in energy. There are also substantial deposits of gold (Uzbekistan was the second largest producer of gold in the former Soviet Union), silver, copper, lead, zinc, wolframite and tungsten. The structure of production is dominated by agriculture and agro-industries. Agriculture represents about 40 per cent of material output and 30 per cent of employment. Uzbekistan is the world's fourth largest producer of cotton, which accounts for about 40 per cent of its agricultural production. Other important products are grains, fruits and vegetables, and silk cocoons. In addition to agro-industries (especially the processing of raw cotton, sheepskin and silk cocoons), the industrial sector includes the manufacture of machinery linked to agriculture (cotton harvesters and textile machinery), chemicals (especially fertilizers), metallurgy and aircraft.

7. Tajikistan, the smallest of the republics, is largely mountainous and, as in Kyrgyzstan, only 7 per cent of the land is arable. The economy is highly dependent on agriculture and on basic food and raw material processing industries. Cotton production is the major agricultural activity, though dairy and wheat production are also important, as is horticulture. Hydroelectric power generation supplies most of the country's electricity consumption requirements, and there is an aluminium plant with an annual capacity of 500,000 tons (15 per cent of the total aluminium capacity of the former Soviet Union). There are also important mineral resources, including zinc, tin and tungsten, as well as rare ores such as antimony. The industrial sector consists mostly of processing of local and imported raw materials, though there is some production of intermediate and heavier industrial products, including power transformers and cables and agricultural equipment.

8. Turkmenistan, the second largest of the republics (but with the smallest population), lies at the southernmost part of the former Soviet Union, with its western border on the Caspian Sea. About 90 per cent of its territory is desert (the Karakumy desert). While the country is rich in natural resources, including large gas and oil reserves, as well as iodine-bromine, sodium sulphate, and various types of salts, the economy is still predominantly agricultural, agriculture accounting for about 46 per cent of net material product and 42 per cent of employment. Cotton is the dominant crop, accounting for more than 50 per cent of the arable land and 60 per cent of total agricultural production. The economy is also highly dependent on the production and processing of energy resources, especially natural gas.

III. RECENT POLITICAL AND ECONOMIC DEVELOPMENTS

9. With the unfolding disintegration of the Soviet Union, the individual Central Asian republics declared their independence on various dates between 31 August and 27 October 1991. Until then, they were integral parts of a closely knit political and economic union over which a system of central planning covering the entire Union economy prevailed. Under the system, all the basic decisions concerning the allocation of budgetary and material resources, the location of production, the types and quantities of goods produced, and the pattern of inter-republic trade were made centrally according to the norms of the plan and applied throughout the individual republics. There emerged a high degree of production specialization among the republics, including those of Central Asia, based on the geographical location of raw material resources, economies of scale and of specialization, the desire to spread manufacturing activities around in the various parts of the Union, and other similar considerations. The economies of the individual republics were thus closely interlinked. For the Central Asian republics in particular, the high level of economic interdependence was reflected in the high share of their GDP represented by exports to other parts of the Union, amounting in all cases to 30 per cent and more.

10. With the breakup of the Union and the abandonment of the system of central planning, and with the desire and efforts all round to adopt free market principles, the situation suddenly changed. The economies of the republics quickly became de-linked, resulting in great economic dislocations in the

individual republics, and a consequential sharp fall in economic activity all round. For the Central Asian republics, the economic dislocation and fall in output and income have been very marked in the years since the breakup of the Union. Thus real GDP is estimated to have fallen by about 35 per cent between 1990 (the last full year of the Union) and 1993 in Kyrgyzstan, by about 25 per cent between 1990 and 1992 in Kazakhstan, and by a more moderate 13 per cent between 1990 and 1993 in the case of Uzbekistan. The dislocation has also been accompanied by budgetary deficits and a sharp rise in inflation, averaging, for Kyrgyzstan, some 1,400 per cent per annum during 1992 and 1993, for Kazakhstan, some 1,600 per cent in 1992 and for Uzbekistan, about 700 per cent during 1992 and 1993.

11. While the breakup of the Soviet Union, and the realization of independence by the constituent republics, meant the end of centralized planning and the command economy, there remained an obvious need for continued cooperation among the individual republics in the various areas in which their economies were so closely interlinked, and for a mechanism to provide a framework for such cooperation. Recognition of this need led to the creation, following the breakup of the Soviet Union, of the Commonwealth of Independent States (CIS) grouping all the members of the former Soviet Union (except the Baltic republics). Within the framework of CIS, consultative mechanisms have been put in place to deal with the various areas requiring inter-republic cooperation to facilitate a smooth transition from centralized to individual republican control, and from central planning to the free market economy. These mechanisms cover all the major areas, including the transport sector with which this report is more specifically concerned.

IV. NEW PATTERNS IN INTER-REPUBLIC AND FOREIGN TRADE

12. It was mainly because of its adverse impact on trade with the republics of the former Soviet Union that the collapse of the old system led to such dislocation and disruption in the economies of the Central Asian republics. The impact was particularly severe since trade within the former Soviet Union accounted for the bulk of the total exports of these countries, for as much as 98 per cent in the case of Kyrgyzstan, and for about 90 per cent for the other republics. The table summarizes data on the evolution of the inter-republic and foreign trade of these republics since the breakup of the Soviet Union. While the data in the table are estimates subject to error (owing, among other things, to the problems of exchange-rate conversion), they can be taken as indicative of the broad trend. As will be seen, they show a precipitous fall in inter-republic trade in the years since 1990. For Uzbekistan, inter-republic exports dived from the equivalent of $11 billion in 1991 to $1.7 billion in 1993 or by some 80 per cent, and imports fell correspondingly. For Kazakhstan and Kyrgyzstan, the fall was equally sharp over the years 1991 to 1992 (data for 1993 being unavailable).

Developments in inter-republic and foreign trade in selected Central Asian republics

(Billions of dollars)

	Inter-republic			Foreign			Total		
	1991	1992	1993	1991	1992	1993	1991	1992	1993
Kazakhstan									
Exports	9.4	2.3	**	0.8	1.5	1.3	10.2	3.8	**
Imports	11.4	3.2	**	1.9	1.5	1.1	13.3	4.7	**
Kyrgyzstan									
Exports	3.6	0.3	**	0.02	0.04	**	3.6	0.34	**
Imports	3.1	0.4	**	0.08	0.02	**	3.5	0.42	**
Uzbekistan									
Exports	11.1	0.8	1.7	0.7	0.9	0.7	11.8	1.7	2.4
Imports	9.7	1.0	1.6	1.4	0.9	1.2	11.1	1.9	2.8

Source: IMF and World Bank estimates.

Notes: Inter-republic trade represents trade with members of the former Soviet Union. The data have been converted from roubles to dollars using applicable exchange rates. Apart from problems of exchange rate conversion, data on inter-republic trade are not strictly comparable with those on foreign trade, owing to differences in valuation procedures.

** Indicates that data are not available.

13. The commodity pattern of the trade of the Central Asian republics reflects the resource base of their economies and the pattern of production specialization which evolved under Soviet planning. In all three republics, agricultural and mineral-based raw materials and semi-processed products loom large in exports. For Uzbekistan, cotton is by far the most important of such products (accounting for a third of total exports), though silk is also important, as are non-ferrous ores and metals. For Kyrgyzstan, such products include electric power, non-ferrous metals and minerals (notably gold and mercury), wool, animal furs and skins, and tobacco; in the case of Kazakhstan, grain, crude oil and gas and coal are the most important such products.

14. Within the framework of production specialization, manufactured goods played an important role in the inter-republic exports of these Central Asian republics. For Kyrgyzstan, such products include refined sugar, electronic goods (consumer products manufactured in a joint venture with the Republic of Korea), and selected engineering products (including agricultural machinery). In the case of Uzbekistan, they include machinery, textiles, agricultural and aviation equipment, and fertilizers; for Kazakhstan, agricultural machinery (tractors), textile machinery, petrochemicals, and textiles are the main items.

15. For the Central Asian republics, trade with foreign (non-CIS) countries fared rather better than did their CIS trade. This is certainly the case for Kazakhstan and Uzbekistan, among the three countries for which the relevant data are shown in the table, with the result that there has been a substantial fall in the share of inter-republic trade in their total trade (and a corresponding rise in the share of foreign trade), especially marked in the case of Uzbekistan, where the share fell from 94 to 70 per cent for exports, and from 88 to 57 per cent for imports, in the years between 1991 and 1993. But given the initial, overwhelmingly dominant role of inter-republic trade in the total, total trade fell more or less in line with the fall in inter-republic trade.

16. One aspect of the shift towards foreign trade is the effect on the product composition of trade, especially of exports. Thus, while resource-based raw materials always played a leading role in the exports of the Central Asian republics within the former Soviet Union, a range of manufactured goods, including heavy machinery, transport equipment and other engineering goods, also figured importantly in those exports. Exports to foreign countries, however, tend to be almost exclusively resource-based raw materials. For example, in the case of Uzbekistan, two such products only, cotton fibre and fuels, accounted for 85 per cent of foreign exports in 1992; in the case of Kazakhstan, fuels (mostly crude petroleum), chemical products (mostly fertilizers) and base metals accounted for over 95 per cent of the total. The composition of trade is therefore being shifted towards greater relative importance of these resource-based products.

17. Another aspect is the much longer transport distances involved in respect to the trade with countries outside the Commonwealth of Independent States. Thus while it is true that the former Soviet Union occupied a vast territory, it is significant that the bulk of the trade of the Central Asian republics within the Union was with their most immediate neighbours. In fact, for all these republics, trade with the Russian Federation and with each other accounted for 75 to 80 per cent or more of total inter-republic trade. Given the location of

these republics, trade outside CIS can involve overland transport distances of 10,000 kilometres or more just to reach the nearest (convenient) transshipment port. Since natural resource-based raw materials tend to be bulky products bearing high transport costs relative to value, these two aspects combine to underline the difficult transport-transit problem which current developments raise for these republics.

V. TRANSIT TRANSPORT SYSTEMS

A. Existing transit transport corridors

18. A comprehensive and highly developed transport network, covering all the major means of transport (road, rail, air and internal waterways), connected all the major towns and cities, ports and harbours, and centres of economic activity of the former Soviet Union. As members of the Soviet Union, the Central Asian republics shared in that transport network. With the breakup of the Soviet Union and the ensuing disruptions to the formerly close trade and economic ties between the constituent republics, however, and with the resulting need and desire of the republics to seek out alternative trade links with foreign countries, the question of the adequacy of the existing transport network to meet the new requirements has become a matter of prime concern. This is especially so for the Central Asian republics in view of their geographic isolation and their new status as land-locked States.

19. In the former Soviet Union, the railway was the most widely used means of transport for freight traffic, accounting (if pipelines are excluded) for nearly 70 per cent of total freight (tons per km). A centrally administered railway system, covering some 150,000 kilometres of track, linked all the various parts of the vast Union territory stretching east to west over almost half the globe and north to south over half the northern hemisphere. Since it was the policy to make railways the principal means of transport, and in view also of the policy to promote the economic integration of the far-flung territories of the Union, railway tariffs were kept relatively low in terms of the prevailing price structures. This policy helped especially to encourage use of the railways for the transport of the low-value, bulky, raw material-based products that tended to loom large in the trade of the Central Asian republics.

20. With the breakup of the Union, however, and the going of their separate ways (political and economic) by the individual republics, the situation changed radically. For one thing, the railway network was broken up, the administration decentralized, and the rolling-stock divided up among the individual republics. Furthermore, with economic integration no longer an overriding political imperative, and with the emergence and spread of free market principles and cost-based pricing, the trend has been towards significant increases in railway tariffs. In addition, now that the republics are no longer linked by a common currency, an entirely new problem has arisen to face users of the new decentralized railways, that of means of payment for transport services outside the territory of the individual republics. The problem has become a serious one, given the difficult budgetary and financial situation facing most republics and the resulting weakness of their newly established currencies. It has led to a large backlog of unpaid bills and to severe inconvenience for both the users

of transport services and the railway administrations. Central Asian republics also face the problem of maintenance and replacement parts for their rolling-stock, most of which have to be secured from other republics, giving rise to additional payments problems. This is a problem that also affects other republics of the former Soviet Union, being a consequence, in the new circumstances, of the pattern of production specialization which prevailed. Among other problems affecting the functioning of the now decentralized railway system is the shortage of fuel in some republics, particularly Belarus and Ukraine, which has sometimes resulted in disruptions in rail traffic.

21. The Council on Railway Transport, a coordinating body of the various railway administrations, operates within the framework of CIS to deal with the various problems that need to be sorted out for the smooth functioning of the decentralized railways. Despite its best efforts, however, difficult problems still face users, including those in the Central Asian republics. Perhaps the most serious of these concerns payments for railway services. With the build-up of debt the centralized system of payment has been abandoned, and various ad hoc measures have been tried, including, in some cases, payment by means of goods (the Russian railways have even set up a special bartering unit for this purpose). It has now been agreed that, effective 1 May 1994, all charges for inter-republic railway services are to be paid in advance in convertible currency. This requirement clearly places a severe burden on users short of foreign exchange, and adds considerably to the cost of transport.

22. While the evidence points to a certain insufficiency in recent years in the maintenance, replacement and upgrading of equipment on the railway system, all the indications are that technical deficiency and shortage of equipment have not as yet become an important problem limiting access to the railway network for transit transport purposes. This is especially so in view of the problem of excess capacity that now affects the railways in most of the former Soviet Union, including the Russian Federation, the main transit country for the Central Asian republics. The sharp fall in rail-freight traffic since the breakup of the Union, reflecting the declining demand associated with economic difficulties and dislocations, largely accounts for the present excess capacity. The extent of this fall can be illustrated from the experience of Kazakhstan, where between 1990 and 1993 the volume of rail-freight traffic (measured in tons per km) fell by more than half. Information available indicates that in Uzbekistan the rate of capacity utilization of the railways is now only about 30 per cent, and in the Russian Federation about 50 per cent. Only after demand for rail traffic picks up following general economic recovery in the region, or if non-replacement and inadequate maintenance continues for a number of years, will capacity and technical adequacy of equipment and infrastructure pose serious problems for transit traffic. For the time being, however, this is not the priority issue.

23. For the newly independent land-locked States of Central Asia, the issues of most immediate concern as regards use of the existing CIS rail network are the distances involved in reaching the transit ports, and the cost of transport. For these republics, three main corridors for transit traffic using the CIS railway system may be identified, based on the general location of the transit port: that leading to the far eastern ports of the Russian Federation, for example, Vladivostock and Nakhodka; the corridor leading to northern European

ports, for example, St. Petersburg and Riga; and that leading to the Black Sea ports, for example, Odessa and Sevastopol (Ukraine) and Novorossiysk (Russian Federation). In addition, there is the possibility of direct rail transport to western European markets through eastern and central Europe. For the Central Asian republics, the rail corridor to the Russian far eastern ports involves distances of 10,000 to 11,000 km, that to the northern European ports distances of 8,000 to 9,000 km, and to the Black Sea ports 6,000 to 7,000 km. Direct rail transport to western European markets would involve distances of 10,000 km or more. These are long distances, especially where the purpose is only to reach a port of transshipment preparatory to a sea voyage. It is therefore to be expected that the cost of transport using these routes will be high. The information available indicates that, for some of the major raw material products exported by the Central Asian republics, the cost of rail transport to the CIS port of transshipment currently amounts to anything up to about 40 per cent of the free-on-board value of the product.

24. There is also an alternative rail-ferry-rail route through the Caspian Sea, via Baku, to the Georgian Black Sea ports of Sukhumi and Batumi. Use of this route would greatly reduce the distances involved in reaching a major seaport, and hence the cost of transit transport, especially for the westernmost parts of Central Asia. Thus from Ashkhabad the distance to the Black Sea would be no more than about 1,800 km, and from Tashkent about 3,000 km. From the Caspian Sea region of Kazakhstan, it would not much exceed 1,000 km. Unfortunately, however, this route is not currently available owing to the unsettled political and military situation in the Caucasian region.

25. The road network in the former Soviet Union is also fairly well developed. It has never, however, played a major role in freight transport, owing, no doubt, to the long distances involved and to the priority that official policy has always given to the railways. For the bulky, raw material products traded by the Central Asian republics, the railway would seem to be the natural choice, but the situation has been changing. For one thing, the rail tariffs have increased considerably (in relative terms) in the recent past, and are likely to increase further as market-based prices are increasingly adopted, thereby encouraging the use of alternative modes of transport. This is likely to be especially relevant for the land-locked Central Asian states which now must pay in foreign exchange for the use of these long railway transit corridors. For them, the alternative of using road vehicles that they own and operate themselves, and therefore involving only minimal foreign exchange outlays (for petrol en route, etc.), must seem increasingly attractive. This is an option that Kyrgyzstan in particular seems to be actively pursuing, bearing especially in mind that only a very small portion of the rail system is in its territory (the mountainous nature of the country largely accounts for this), and hence that almost all use of the railways has to be paid for in scarce foreign exchange. It therefore seems likely that there will be increasing reliance on road transport to gain access to distant Commonwealth of Independent States ports. One problem facing road transport users that is currently a cause of great concern involves security en route. It is apparently now often necessary for road cargo vehicles to be accompanied by armed guards, which only adds to the cost of transport. Efforts are being made to deal with this problem within the framework of the CIS Council on Road-Use Coordination.

26. Facilities at the major CIS ports seem adequate for present needs, bearing in mind the reduced volume of trade and the present limited requirements for handling and storage. There seems to be a problem looming ahead concerning the adequacy of the port facilities to deal with the changing product mix, and the emerging need for upgrading port technology, but, for the moment, this is not a particular problem for the land-locked States of Central Asia.

27. Pipelines have an important place in the transport network inherited from the former Soviet Union, and three of the Central Asian republics, namely Kazakhstan, Turkmenistan and Uzbekistan, depend on this mode of transport for the transshipment of their gas and oil. In the case of Kazakhstan, there are pipelines to the Russian Federation for the export of oil produced in the western region of the country and for the export of gas, while a pipeline supplies oil from Siberia for processing in oil refineries located in eastern Kazakhstan. In Turkmenistan also, gas exports are transshipped through a pipeline to the Russian Federation. In the case of Uzbekistan, a pipeline stretches from Bukhara to the Urals for the export of natural gas.

28. There is no indication that customs formalities, or the need for compliance with international procedures and regulations, play any role at present in impeding transit traffic throughout the territories of the Commonwealth of Independent States.

B. The search for alternative transit routes and other options

29. Since declaring their independence in 1991, the land-locked States of Central Asia have been giving much thought to the question of alternative transit transport corridors for their foreign trade. Concern with this question reflects both a desire to seek out ways of lowering the high transport costs which their transit trade now bears, and a wish to exploit the idea that the wider the options open to them, the greater their bargaining position vis-à-vis their transit neighbours and trading partners. That idea is especially appealing to these States in view of their geographic remoteness and their historical isolation from the outside world.

30. While the individual Central Asian States all have their own geographic and economic attributes which determine their individual needs, underlying similarities unite them sufficiently to make possible a broadly common approach to the search for alternative transit routes. A number of actual or potential alternative transit corridors have been identified and are currently being studied, promoted and/or discussed with actual or potential transit neighbours. Among those under consideration the following are of special interest.

1. Transcontinental east-west railway corridor

31. The transcontinental east-west railway corridor leads east through China to Chinese Pacific ports, and west through Turkey to Istanbul and the major western European cities and beyond. Apart from providing the Central Asian States with alternative transit routes to the Pacific Far East and to western Europe, such a

corridor would provide a direct rail link between Far East ports and western Europe about 3,000 km shorter than the existing link using the trans-Siberian railway. It would also make the Central Asian States an important crossroads in the traffic between two major centres of commerce, with important spin-off effects, reminiscent of the ancient silk route that once passed through Central Asia on its way from the Chinese Far East to western Europe.

32. At present, the Chinese railway network, which connects with the major far eastern ports of Shanghai, Qindao and Guangzhou, among others, goes as far as Urumqi, about 600 km from the Kazakhstan border and the nearby Kazakh railway terminal at Druzba. Only a relatively short stretch of line is therefore missing and needs to be built to link the Central Asian States by rail to the Chinese Pacific ports, the distance being considerably less than to the Russian far eastern ports. Talks have been conducted with China on the subject and the matter is under consideration. The Economic and Social Commission for Asia and the Pacific (ESCAP) has also made a preliminary survey of the land routes linking the Central Asian States and China. The findings of that survey will serve as a useful source of information for some of the follow-up work involving a comprehensive comparative analysis of the transit routes available to these States.

33. From Druzba the railway goes west through Central Asia and across to Kransnovodsk (Turkmenistan) on the Caspian Sea. Under normal circumstances, the wagons would then cross the Caspian Sea by ferry to Baku and continue by rail through the Caucasus and Turkey to the seaport at Istanbul (or by rail into the heart of Europe) but, since the unsettled situation in the Caucasus makes it impossible to use that route at present, an alternative route through the Islamic Republic of Iran is being actively developed in cooperation with all the parties concerned. This involves construction of a stretch of about 70 km of railway line in Turkmenistan and about 150 km in the Islamic Republic of Iran to link up the Central Asian and Iranian railway systems. Work on this new stretch of railway is well under way, the portion in Turkmenistan being financed jointly with contributions from the other Central Asian States.

2. The Iranian corridor

34. A route south to the Iranian port of Bandar Abbas has the great advantage of a short distance required to reach a major seaport. The port is at present not linked to the railways (the nearest railhead being some 300 km away) and is therefore only accessible by road. It appears that the Central Asian States currently have difficulty using Iranian roads because their truck fleets do not meet the required international standards of road-worthiness, particularly in respect to pollution control. This limits their ability to make use of Iranian ports. They also face problems related to compliance with relevant customs requirements and procedures, problems compounded by the fact that they are not parties to the relevant international customs conventions on road transit. There is hope that in time the Islamic Republic of Iran will extend the railway link to the port, a development which would greatly enhance its importance to the Central Asian States as a transit port. For the time being, however, they have access to the port only by using the roads, though the possibility of

multimodal rail-road-ship transport arrangements should undoubtedly be considered.

3. The Pakistan corridor

35. A route south to the Pakistan port of Karachi could also mean a great reduction in the transit distance to a major seaport, especially for the more southern of the Central Asian States, including Tajikistan, Turkmenistan, Uzbekistan, and the western parts of Kyrgyzstan. This is a road route, but there is an important railhead at Termez, on the border between Uzbekistan and Afghanistan, with facilities for storage, transshipment, and so on that could serve as an important staging point for transit traffic through Afghanistan, the distance from Termez to Karachi being about 2,000 km. The road from Termez to Kabul exists but needs to be upgraded. From Kabul transit traffic could either go south to Kandahar (Afghanistan) and then through Quetta (Pakistan) to Karachi, or east to Peshawar (Pakistan) and then south to Karachi. The roads in Pakistan are likely to be better and hence the latter route would probably be the preferred one. While this is clearly an ideal route to the south for most of Central Asia, it is unfortunately not being used at present owing to the unsettled political conditions in Afghanistan. Instead, alternatives are being explored. One such involves a detour through China, from Osh or Naryn in Kyrgyzstan, passing through the Chinese town of Kashi (Kashghar), and over very mountainous terrain on to Islamabad and Karachi. The road rises to over 3,500 metres above sealevel and is snow-bound for many months of the year. Long sections of the road also consist of unpaved gravel surface. It is therefore a very difficult route, used at present mostly for freight traffic with neighbouring countries (such as China, India and Pakistan), rather than as a transit corridor to Karachi.

4. The Afghan corridor

36. There are two southern routes to the Islamic Republic of Iran and Pakistan across the territory of Afghanistan. One is the route from Turkmenistan where the railway reaches the Afghan territory at Kushka. A highway joins Kushka to Herat and proceeds to Kandahar and Quetta, where railway and road connections lead to the port of Karachi. Furthermore, there is a potential transit route from the Herat-Kandahar highway, by way of Farah, to Zahedan and Bandar Abbas in the Islamic Republic of Iran, which could be developed. The existing highways need to be rehabilitated because of the extensive damage caused by the war. The other route is from Termez and Hairatan on the Afghan bank of the Oxus to Salang Pass, Kabul, Jalalabad and Peshawar, where the highway joins the Pakistan railway network. This rail link proceeds to Lahore, through Wagah to Amritsar and Delhi, and then to Karachi.

5. Other optional corridors

Land routes

37. An alternative route, through the eastern Iranian towns of Zahedan and Mashhad to Ashkhabad, is being used, though this is also a very difficult route which passes for long distances through arid deserts without amenities. There is a need for an improved regulatory framework to facilitate road transit traffic in the region (Pakistan is not a party to the TIR Convention), and proposals in this regard are currently under discussion within the framework of the Economic Cooperation Organization (ECO). Thus while Karachi remains for the Central Asian States a good potential transit outlet, with necessary port facilities for transit trade, it is as yet little used for this purpose.

38. Central Asian States have also been concerned with the question of additional and alternative pipeline routings for the transportation of oil and gas. Thus Kazakhstan is studying the possibility of a trans-Kazakh pipeline linking up the oil-producing region in the west of the country with its oil-refining capacity in the east, the intention being to improve its competitive position. In the present situation, the pipelines in both regions run north to south, and Kazakhstan depends wholly on the Russian Federation, both as a market for its own crude and as a source of crude supplies for its own refineries. Proposals are also being studied for a pipeline to the Caspian Sea. Turkmenistan is also considering new pipelines for the export of natural gas, one through the Islamic Republic of Iran and Turkey to western Europe (either overland or under the Caspian Sea), and another through Afghanistan to Pakistan and the Indian Ocean.

39. There is also the question of the contribution that internal waterways can make to improving access to seaports and reducing transit transport costs. The CIS territory is covered by an extensive network of rivers and lakes sometimes navigable for thousands of kilometres, and ways are being sought of making fuller use of this network for transit transport.

Airfreighting

40. Air transport can play an important role in helping to ease the transit difficulties of land-locked States. While air transport is generally more expensive in terms of dollars per ton/mile, it has the advantage of speed and timeliness which can sometimes be overriding, especially in cases where alternative modes of transport can be long and uncertain. In fact, air transport is already playing a small but significant role in the evolving diversification of the trade of the Central Asian republics. At the informal but quite significant level, an important traffic has built up around enterprising individuals who regularly visit neighbouring countries by air, particularly Turkey, in order to bring back a range of mostly consumer goods to supply the local market. At a more formal level, the State Foreign Trade Company of Kazakhstan (Kazakhstanimpex) makes regular use of chartered airlines to import goods into Kazakhstan, mostly from Singapore.

41. There are plans to upgrade the Alma-Ata airport for the specific purpose of better meeting the needs of cargo traffic. In Kyrgyzstan there are plans to

develop the airport at Manas, about 30 km from the capital Bishkek, into a regional cargo transit centre. A free-zone has been established nearby to help promote the concept of a transit centre. The Manas airport is the largest and most imposing in the region, but is not at present able to function at full capacity, owing both to fuel shortages and to the need to upgrade and improve navigation equipment. At the regional level, the possibility is also being explored, under the auspices of ECO, of forming a joint air transport company especially devoted to air cargo. Such an enterprise would put to use the large fleet of aircraft available in the Central Asian republics suitable largely for airfreight.

VI. PROPOSALS FOR FUTURE ACTION

A. Overall thrust of the proposed follow-up action

42. To be effective, a transit transport strategy for the newly independent land-locked States of Central Asia must incorporate elements that take account both of the legacy of their historical past and of the possibilities and options which the future offers. The historical legacy includes the transport facilities inherited at independence and the aspects of inter-republic relations which permitted their effective use. As described above, those facilities are extensive and were fairly well developed, and served their basic purpose in linking up and integrating the far-flung regions of the former Soviet Union. For various reasons connected with the break-up of the Soviet Union, the existing transport network has experienced serious disruptions and no longer functions as effectively as it did before, and this adds urgency to the quest of the Central Asian States for alternative transit routes. The long-term need for additional, new transit routes exists independently of the immediate difficulties caused by these disruptions, however, and would remain even if they were speedily resolved. Furthermore, even in the best of circumstances, it will take time to bring on stream and make fully operational the various alternative transit routes now under consideration.

43. For the reasons set out above, efforts are needed, and international assistance could be helpful, first, to help solve some of the problems which have caused disruptions and to overcome the operational administrative and procedural difficulties in the use of existing transit routes and, secondly, to pave the way for the early development and smooth functioning of new, alternative routes. The proposals for future action elaborated below highlight specific issues that need to be addressed in this regard both in the short and long term. Although these proposals reflect the specific requirements and priorities of the Central Asian land-locked countries, their thrust is within the overall context of the recommendations made at the first meeting of Governmental Experts from Land-locked and Transit Developing Countries and Representatives of Donor Countries and Financial and Development Institutions, which was held in New York from 17 to 19 May 1993.

44. At the subregional level, the meeting, inter alia, recommended that land-locked and transit developing countries should take measures to harmonize and streamline customs documentation and procedures, to standardize the regulations governing carriers' liability in the form of inter-State agreements

for each type of carrier, to harmonize the procedures for inter-country road maintenance, to liberalize trade in transit services and to promote joint ventures in the development of transit facilities and services. It also recommended that land-locked and transit countries should make deliberate joint efforts to strengthen the legal framework for transit operations and to establish more effective institutional arrangements to monitor the implementation of such bilateral and subregional agreements, and to promote the ratification of international conventions related to transit. At the national level, it was recommended that land-locked countries should vigorously promote the development of more efficient physical transit facilities within their borders in order to minimize the delays associated with customs and clearance procedures in ocean ports and that transit countries on their part should take measures to improve the management of port operations in order to reduce the delays in the movement of cargoes in and out of the ports.

45. At the international level, the meeting called upon donor countries and financial and development institutions to give priority to projects and programmes as appropriate which adopt a subregional/corridor approach to the improvement of transit systems, and which adequately serve the needs of both land-locked and transit countries. They should also provide land-locked and transit developing countries with appropriate financial and technical assistance in the form of grants or concessional loans for the construction, maintenance and improvement of their transport, storage and transit infrastructures and facilities, including alternative routes and improved communications.

B. Specific recommendations

1. Comparative analysis of the viability of existing and potential transit corridors

46. Mention should first be made of the need for international assistance for carrying out the next step in the evaluation of the situation regarding the proposed alternative transit routes. The present report gives only broad and general indications of the existing situation based on information obtained from brief visits to capitals. A more focused effort is now required to obtain all the relevant information in sufficient detail, and to carry out the necessary analysis, so that fully documented and authoritative conclusions can be made available, and in the light of which the necessary priorities can be established and support sought for implementation action needed to bring into being the new transit routes as efficient functioning entities. Among the issues on which detailed and well-documented information will be required and a full analysis undertaken, the following deserve special mention:

(a) Specific details concerning the actual state of the physical infrastructure now available on the proposed or contemplated transit routes, whether situated in the transit States or in the adjoining land-locked States;

(b) The plans currently being implemented in transit countries for upgrading or constructing specific links in the transit corridors;

(c) Identification of specific infrastructure elements now missing or in need of upgrading in the proposed transit corridors, together with broad estimates of the costs of undertaking such investment;

(d) Cost/benefit analyses relating to the use of these alternative transit routes, taking account not only of the immediate benefits to the land-locked States of reduced transport costs, but also of the wider benefits, both to these States themselves and to their transit neighbours, of the resulting expansion of transit trade;

(e) The problems of transit procedures that currently exist, or are likely to arise in the future, together with specific recommendations for solving these problems.

47. UNCTAD and the regional commissions have for several years now, as part of their regular work and technical assistance programmes on behalf of land-locked and transit developing countries, undertaken work related to those areas and could play an important catalyst role in carrying out the tasks set out above. The donor community should stand ready to support this pilot effort.

2. Assistance in the streamlining of the pattern of payments for transit services

48. Among the difficulties which have plagued the operations of existing transit transport through the Commonwealth of Independent States, the most crippling is undoubtedly the breakdown of the inter-republic payment system for rail services. This breakdown reflects the wider breakdown of trade and payments which has its ramifications in the precipitous fall in trade and production and in the sharp decline in the freight traffic of the railways. Present arrangements calling for the payment in advance and in foreign exchange for use of the railways are costly and burdensome, especially for the land-locked States of Central Asia, and ways should be sought to revert to less burdensome payment arrangements. The following actions are recommended in this regard:

(a) Promotion of inter-republic trade which itself has suffered from payment difficulties, but whose revival would contribute to the reintroduction of a less burdensome payment clearing system for the railways;

(b) Improvement of the maintenance of railway rolling-stock and of spare parts, the lack of which is now being felt, and which could soon undermine proper functioning of the railways, which is also a manifestation of the breakdown of the payment system.

3. Improvement of the physical transit infrastructure facilities

49. Success in the search for new alternative transit routes will depend on the existence, or putting in place, of both the necessary physical infrastructure and the appropriate transit facilitation arrangements. Proper consideration has

therefore to be given to both aspects. The former will involve the rehabilitation and improvement of existing facilities, as well as new investments both in the land-locked States and in their transit neighbours. A good deal of preliminary work has already been done on the identification of needs for new or improved physical infrastructure and on the initiation of discussions with the relevant parties, and in some cases matters have reached the stage of actual implementation (for example, as regards the rail link through the Islamic Republic of Iran and Turkey to the Bosporus, now expected to be operational by 1996). In other cases much more needs to be done, including agreements on financing.

50. It is true that in many cases strategic political considerations may be the main determinant of the will of Governments to act, particularly with regard to the construction of new railway lines or major new road arteries in their territory. There is still an important role, however, for transnational or regional transport planning to provide a framework for action by individual countries for their mutual economic benefit. Such a framework would also be helpful in negotiating and securing financing. The land-locked States of Central Asia therefore have a great interest in regional transport planning, which could help define and bring into being new alternative transit routes. This is a matter in which international organizations are ideally suited to assist.

51. The ESCAP Trans-Asian highway project is a good example of efforts towards such planning. Regional transport planning is also on the agenda in ECO, whose members include the Islamic Republic of Iran, Pakistan and Turkey, together with the five Central Asian land-locked States. The European Union is also sponsoring a project to study plans for a transport corridor from Central Asia to Europe. These and other such projects, though they may sometimes overlap and may not always be consistent, can help in elucidating the issues and in pointing the way to realizable solutions. There is however still a need for reconciling these and other ideas into a comprehensive framework which takes account of all the available options and means of transport, including internal waterways and multimodal transport.

52. A number of areas have been identified requiring investments in the land-locked States themselves to enable them to make more effective use of transit links, actual or potential. Among these may be mentioned:

(a) Upgrading of the border crossing at Druzba, near the Kazakhstan border crossing with China, to improve its capacity as a transshipment and stopover point, and reparation of the railway line on the Kazakhstan side of the border;

(b) Improvement of the quality of the truck fleet in the Central Asian republics to meet international standards for transit traffic, particularly as regards pollution control;

(c) Development of the Kazakh port of Aqtar (Ahktar) on the Caspian Sea as the gateway for an alternative transit route for export of petroleum and other products from western Kazakhstan;

(d) Replacement of outdated navigation equipment at Manas airport in Kyrgyzstan; warehousing and storage facilities at various locations on the new alternative transit routes (though it is true that in many cases this can await further build-up of the volume of traffic);

(e) Improvements to telecommunication facilities needed to facilitate transit traffic.

53. In view of the important contribution such projects can make to easing the transit transport situation of the land-locked States of Central Asia, these and other similar such projects which may be proposed are worthy of consideration for international financing on special terms. It is understood that Japanese aid sources have already agreed, or are seriously considering, financing the Druzba border project and the adjoining railway line.

4. Transit facilitation agreements and arrangements

54. Transit by road or rail through the territory of another country implies the existence of jointly agreed rules and procedures to facilitate such transit. Such rules and procedures have as their purpose the twofold aim of protecting the legitimate interests of the transit country (regarding, for example, compliance with its laws and regulations, including those concerning customs) while at the same time ensuring speedy and efficient transit. Over the years a body of international conventions, supplemented by bilateral and subregional agreements, have evolved to define the rules applicable among countries parties to such conventions or agreements. Developed over the years on the basis of experience, these rules generally serve their purpose quite well.

55. The newly independent land-locked States of Central Asia are not as yet parties to any of these international conventions and are only now beginning to negotiate bilateral and multilateral agreements with their neighbours dealing with the facilitation aspects of transit. In view of their long history as parts of the former Soviet Union, they lack experience in international negotiations, and the necessary full understanding of the meaning and implications of the relevant international conventions to permit them to contemplate immediate membership. The problem of putting in place appropriate transit facilitation arrangements to allow fully effective use of new alternative transit routes is therefore one that needs to be addressed. In the meantime, the fact that use of existing transit routes through the CIS countries is still virtually free of facilitation problems (relating not only to customs and the like but also to such issues as the control of standards for lorries and trucks) is added reason for the continued reliance on those routes, long and costly as they might be.

56. All the transit countries, actual or mostly potential, consulted in the preparation of the present report welcomed the use of their territory as a transit corridor for the land-locked States of Central Asia and expressed willingness to cooperate fully with their land-locked neighbours in assuring access to their internal transport network, in providing the necessary port facilities, and in taking a flexible attitude to the transit facilitation issue, bearing in mind the special situation of the Central Asian republics in view of

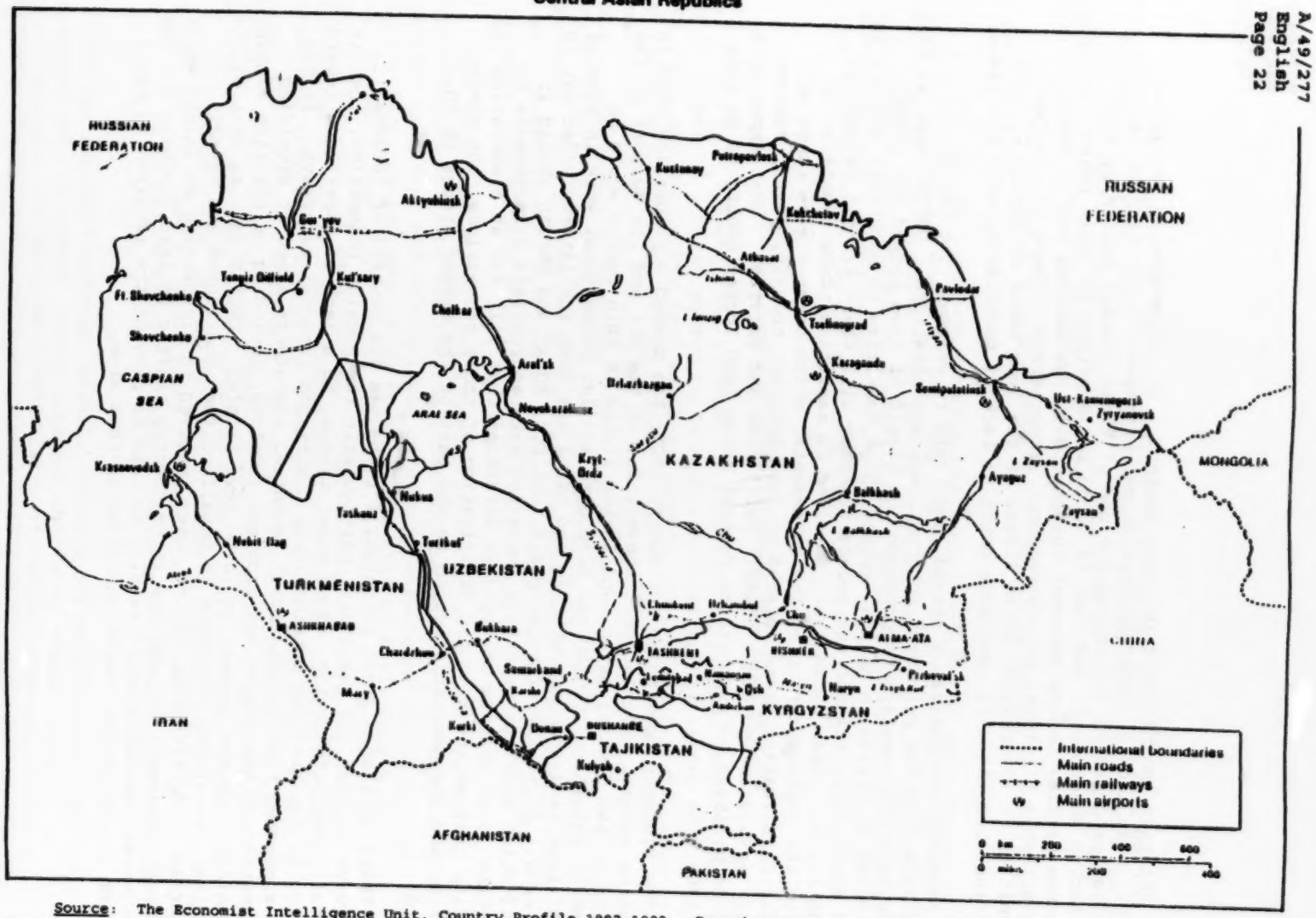
their relative inexperience in these matters. It was generally recognized, however, that lack of comprehensive formal arrangements for transit facilitation inhibited progress in furthering the use of these transit routes by their land-locked neighbours, and that it would be important for this reason for them to become parties to the relevant international conventions and/or negotiate and agree suitable bilateral or sub-regional arrangements. There is also wide recognition in the Central Asian States of the importance of moving in this direction, but there is hesitancy owing to lack of familiarity with the issues.

57. Measures are therefore needed, and would be welcome, for technical assistance from the pertinent international organizations. UNCTAD has, as part of the technical assistance programme on behalf of land-locked and transit developing countries in Africa, helped those countries to negotiate and put in place subregional transit agreements together with their transit neighbours. UNCTAD has also been extensively involved in assisting those countries to monitor the implementation of the agreements, which cover a wide range of transit facilitation areas related to road and rail transit, ports, customs, transit insurance and other transit facilities and services. That experience could be utilized to support the Central Asian land-locked countries in this important area.

58. The Economic Commission for Europe (ECE) has played a pioneering role in promoting several international conventions on transit and its support of the efforts of the Central Asian land-locked States in this regard would be extremely valuable. UNCTAD has also done similar promotional work in some of the African land-locked countries and ESCAP has some initiatives under way in this area. It is therefore proposed that ECE, ESCAP and UNCTAD should in consultation with the countries concerned make appropriate arrangements to undertake joint efforts to organize workshops that will aim at elaborating the benefits that accrue from the ratification of those conventions, the costs involved and the desirable action on the part of the member States in this regard.

59. There is also a great potential for the use for transit of internal waterways through CIS territory, particularly the Russian Federation, that is not fully exploited owing, among other things, to a lack of experience regarding procedures for handling international traffic on internal waterways. It has been suggested that international technical assistance aimed at providing information on the issues and problems involved, including on practice elsewhere in dealing with the issues, would be very helpful. UNCTAD has, as part of its technical assistance programme on behalf of the land-locked and transit countries in East/Central Africa, been involved in elaborating an inland water transport agreement to regulate inter-country traffic on Lake Victoria and the experiences available could readily be used to provide the required advisory support to the Central Asian countries in this area.

Annex
Central Asian Republics



Source: The Economist Intelligence Unit, Country Profile 1992-1993: Georgia, Armenia, Azerbaijan and Central Asian Republics. Reproduced by permission of the Economist Intelligence Unit.

The terminology used and the delimitation of frontiers or boundaries are those of the source.